

**REPORT OF THE AUDIT OF THE  
MENIFEE COUNTY  
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period  
May 30, 2008 Through April 15, 2009**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**MENIFEE COUNTY**  
**SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period**  
**May 30, 2008 Through April 15, 2009**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2008 Taxes for the Menifee County Sheriff for the period May 30, 2008 through April 15, 2009. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$1,200,942 for the districts for 2008 taxes, retaining commissions of \$46,380 to operate the Sheriff's office. The Sheriff distributed taxes of \$1,170,300 to the districts for 2008 taxes. Taxes of \$330 are due to the districts from the Sheriff and refunds of \$17,490 are due to the Sheriff from the taxing districts.

**Report Comments:**

- The Sheriff Did Not Properly Distribute Interest Earnings
- The Sheriff's Office Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits as of December 8, 2008 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured    \$193,071

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Hershell Sexton, Menifee County Judge/Executive

Honorable Rodney Coffey, Menifee County Sheriff

Members of the Menifee County Fiscal Court

Independent Auditor's Report

We have audited the Menifee County Sheriff's Settlement - 2008 Taxes for the period May 30, 2008 through April 15, 2009. This tax settlement is the responsibility of the Menifee County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Menifee County Sheriff's taxes charged, credited, and paid for the period May 30, 2008 through April 15, 2009, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 23, 2009 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable Hershell Sexton, Menifee County Judge/Executive  
Honorable Rodney Coffey, Menifee County Sheriff  
Members of the Menifee County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff Did Not Properly Distribute Interest Earnings
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen  
Auditor of Public Accounts

October 23, 2009



MENIFEE COUNTY  
 RODNEY COFFEY, SHERIFF  
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period May 30, 2008 Through April 15, 2009

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 138,979	\$ 338,497	\$ 479,872	\$ 159,957
Tangible Personal Property	9,164	19,310	23,958	25,727
Fire Protection	1,323			
Increases Through Exonerations	85	205	292	97
Franchise Taxes	25,803	56,193	72,491	
Limestone, Sand and Mineral Reserves	390	944	1,345	448
Penalties	1,343	3,253	4,610	1,540
Adjusted to Sheriff's Receipt	(119)	(169)	(222)	(81)
Gross Chargeable to Sheriff	176,968	418,233	582,346	187,688
<u>Credits</u>				
Exonerations	4,577	10,309	13,701	9,952
Discounts	1,958	4,793	6,720	2,246
Delinquents:				
Real Estate	12,029	29,080	41,276	13,758
Tangible Personal Property	1,592	3,355	4,162	4,785
Total Credits	20,156	47,537	65,859	30,741
Taxes Collected	156,812	370,696	516,487	156,947
Less: Commissions *	6,952	11,810	20,660	6,958
Taxes Due	149,860	358,886	495,827	149,989
Taxes Paid	149,350	364,123	507,051	149,776
Refunds (Current and Prior Year)	180	430	599	213
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	\$ 330	\$ (5,667)	\$ (11,823)	\$ 0

\* and \*\* See Next Page

The accompanying notes are an integral part of this financial statement.

MENIFEE COUNTY  
 RODNEY COFFEY, SHERIFF  
 SHERIFF'S SETTLEMENT - 2008 TAXES  
 For The Period May 30, 2008 Through April 15, 2009  
 (Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	553,092
4% on	\$	516,488
1% on	\$	121,362

\*\* Special Taxing Districts:

Library District	\$	(1,454)
Health District		(1,065)
Extension District		(957)
Soil		(209)
Fire		(1,856)
Watershed		(126)

(Refunds Due Sheriff)	\$	<u>(5,667)</u>
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MENIFEE COUNTY  
NOTES TO FINANCIAL STATEMENT

April 15, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Meniffee County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MENIFEE COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 15, 2009  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of December 8, 2008, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$193,071

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2008. Property taxes were billed to finance governmental services for the year ended June 30, 2009. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 3, 2008 through April 15, 2009.

Note 4. Interest Income

The Menifee County Sheriff earned \$758 as interest income on 2008 taxes. As of October 23, 2009, the Sheriff owed \$313 in interest to the school district and \$445 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Menifee County Sheriff collected \$8,286 of 10% add-on fees allowed by KRS 134.430(3). As of October 23, 2009, the Sheriff owed \$8,286 in 10% add-on fees to his fee account.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Hershell Sexton, Menifee County Judge/Executive  
Honorable Rodney Coffey, Menifee County Sheriff  
Members of the Menifee County Fiscal Court

**Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Menifee County Sheriff's Settlement - 2008 Taxes for the period May 30, 2008 through April 15, 2009, and have issued our report thereon dated October 23, 2009. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Menifee County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Menifee County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Menifee County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Menifee County Sheriff's Settlement - 2008 Taxes for the period April 16, 2008 through April 15, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Did Not Properly Distribute Interest Earnings

The Menifee County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Menifee County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

October 23, 2009



## COMMENTS AND RECOMMENDATIONS



MENIFEE COUNTY  
RODNEY COFFEY, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Period May 30, 2008 Through April 15, 2009

STATE LAWS AND REGULATIONS:

The Sheriff Did Not Properly Distribute Interest Earnings

The Sheriff did not properly distribute interest earnings on tax collections. KRS 134.140(3)(b) requires the Sheriff at the time of his monthly distribution of taxes to the school district, to pay the school that part of his investment earnings for the month that is attributable to the investment of school taxes. The Sheriff is allowed to charge up to 4% of the earned monthly investment income for administrative expenses. The Sheriff earned \$758 of interest on tax collections and did not remit the portion of interest that was due to the school. The Sheriff should distribute \$313 to the school and \$445 to his fee account for interest earned on tax collections. We recommend the Sheriff distribute interest earnings on a monthly basis as required.

*Sheriff's Response: In the future, we will make every effort to correct and pay over all interest due to school monthly.*

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

During our review of internal controls, we found the Sheriff's office lacks adequate segregation of duties. The Sheriff's bookkeeper collected taxes from taxpayers. The bookkeeper also prepared the daily deposits, deposited tax receipts, and prepared the tax settlement. By not segregating these duties there is an increased risk of misappropriation of assets either by error or fraud. Good internal controls dictate the same employee should not handle, record and reconcile receipts. The following compensating controls can be implemented to offset these internal control weaknesses:

- Recount and make the deposits daily.
- Agree monthly tax reports to receipts and disbursements ledger.
- Agree daily tax collection totals to the receipts and deposit slip.
- Examine all disbursement checks prepared by another employee.

These reviews can be documented with the Sheriff's initials.

*Sheriff's Response: Due to small office and staff, efforts are made to make every effort to ensure safe and adequate controls over all monies that come through our office.*

